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September 29, 2023

The Honorable Alejandro Mayorkas
Secretary
U.S. Department of Homeland Security
Washington, D.C. 20528

Dear Secretary Mayorkas,

The House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party (CCP) writes today to express our concern that Qingdao Sunsong—a company based in the People’s Republic of China (PRC)— and its U.S.-based subsidiary, Sunsong North America, are circumventing Section 301 tariffs by transshipping their products with limited transformation through Thailand to the United States. Reviews of Qingdao Sunsong’s public disclosures lay out a case of blatant trade fraud that is having a catastrophic impact on American manufacturers. Indeed, one American company has been compelled to accumulate significant debt, divest itself of two business divisions and most recently lay off one-quarter of its workforce due to Sunsong’s trade fraud. If swift action is not taken, the affected company will be forced to permanently cease its operations.

The use of transshipment to evade United States tariffs is a serious violation of U.S. law and undermines American economic and national security. To evade Section 301 tariffs and duties, many PRC companies—including Sunsong—ship their Made in China products to countries that do not face tariffs at the same level as those imposed on the PRC by the United States. Without fundamentally transforming the product, these companies will then ship their Made in China products to the United States under the guise that the products were made in a country other than China. Only when a good has undergone substantial transformation in a third country—which is defined as a fundamental change as a result of processing or manufacturing in the third country which significantly adds to its value an amount or percentage that is significant in comparison to the value which the good (or its components or materials) had when exported from the country in which it was first made or grown—are these shipments permitted.¹ Importers

¹ *Determining Origin: Substantial Transformation*, INTERNATIONAL TRADE ADMINISTRATION, available at www.trade.gov/rules-origin-substantial-transformation.

that knowingly falsify the country of origin label on their imports are subject to significant fines and penalties under 19 U.S.C. § 1592. We are concerned that these fines and penalties are not being enforced.

In June 2022, Qingdao Sunsong applied to publicly list on the Beijing Stock Exchange (BSE).² As part of the listing process, the BSE required Qingdao Sunsong to provide a detailed accounting of its international operations, including its operations in Thailand and North America.³ In its response letter to the BSE, Qingdao Sunsong confirmed its rubber hose assembly products produced in China were subject to a 25% tariff and that “in order to reduce tariff costs, the issuer shifted its production (from China) to Thailand.” Qingdao Sunsong’s response detailed how it relied on its relationships with Thailand based Virayont Group Co. Ltd. and Imperial Cable Industry Co. Ltd. to reduce tariff costs borne by its U.S. subsidiary, Sunsong North America.

Qingdao Sunsong’s financial disclosures in its response to BSI appear to clearly describe a pattern of trade fraud. A disclosure from Qingdao Sunsong indicates that the effect of outsourced processing in Thailand added between 12 cents and 23 cents to process each of its power steering hose assemblies between the period 2019 to 2021. These numbers indicate that processing by Virayont of the products received from Qingdao Sunsong accounted for 4 – 8% of the declared value of assembly based on Qingdao Sunsong’s numbers, far below the threshold expected to qualify as “substantial transformation.” Indeed, the Qingdao Sunsong disclosure indicates that Viayont’s added value is “assembly processing, and the process is relatively simple” and further stated that its products shall be inspected and warehoused before being sold, further implying the standard of substantial transformation is not being met. In 2021, Qingdao Sunsong began to use a new wholly-owned subsidiary, Sunsong Thailand, to facilitate this continued practice.

Finally, in Qingdao Sunsong’s 2022 prospectus, Wei Zengxiang—the controlling shareholder of the company—said that “[i]f (Sunsong) and its subsidiaries are subject to any penalties or legal liabilities by the competent authorities for violating the trade regulations of the importing or exporting countries, resulting in fines, compensation or other economic losses of (Sunsong) and its subsidiaries, I will unconditionally bear all the aforementioned fines, compensation and other economic losses on behalf of (Sunsong) and its subsidiaries, or if (Sunsong) and its subsidiaries must bear them first, I will give full compensation to (Sunsong) and its subsidiaries in a timely manner. Moreover, I guarantee that I will not recover from (Sunsong) in this regard in the future.” It appears that Mr. Wei understands that his company is circumventing Section 301 tariffs. Indeed, he claims he will personally pay any penalties for his company to continue evading tariffs.

² See www.bse.cn/disclosure/2022/2022-06-23/1655969480_856426.pdf.

³ See www.bse.cn/disclosure/2022/2022-10-31/1667201822_122172.pdf.

We are concerned that this type of trade fraud is commonplace in today's economic environment and companies are engaging in these practices to effectively evade the United States' tariff regime. Therefore, we respectfully request that you provide the Select Committee with a briefing on how the Department is investigating and seeking redress from these perpetrators as soon as possible but no later than October 13, 2023.

The House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party has broad authority to "investigate and submit policy recommendations on the status of the Chinese Communist Party's economic, technological, and security progress and its competition with the United States" under H. Res. 11.

To make arrangements to deliver a response and schedule a briefing, please contact Select Committee staff at (202) 226-9678.

We appreciate in advance your timely response to this important matter.

Sincerely,



Mike Gallagher
Chairman
Select Committee on China



Darin LaHood
Member of Congress

CC: The Honorable Merrick B. Garland, Attorney General
U.S. Department of Justice